

Illinois Sustainable Energy Plan

Statement by Commissioner Bob Lieberman

July 19, 2005

Thank you Mr. Chairman. I would like to take a few minutes to lay out the background and rationale for what I hope will be the Commission's action today.

But before I begin, I would like to thank my fellow Commissioners, their assistants and the staff of the Commission for all their help over the past five months. In addition I would like to thank all of the stakeholders for their willing and enthusiastic participation. I also want to thank Lt Gov Quinn who has tirelessly framed these issues in a public policy context for as long as I can remember. Finally, I would like to thank Governor Blagojevich – this debate has been going on in Illinois for at least twenty years and his administration has been the first willing to take the policy leadership necessary to move us from debate to action.

Today we are considering the adoption of the Governor's Sustainable Energy Plan. In the last few months, as the Commission has held a series of workshops to consider the Plan, we have heard that – if implemented – the plan will generate substantial new economic activity in rural areas of Illinois and it will help produce cleaner air by reducing emissions from fossil fuels.

All of that is true and those are certainly laudable outcomes. But I would like to frame the Sustainable Energy Plan in an additional context – one that is familiar to the Commission – that of consumer protection.

Mr. Chairman, Commissioners. We are facing a new and disturbing situation in Illinois – and across the country – and we may not have the appropriate tools to deal with it.

For the first time in two decades the inflation-adjusted price of fossil fuels is rapidly rising.

After falling dramatically through the 1980's and 1990's, the inflation adjusted prices of fossil fuels – coal, natural gas, and petroleum – have risen since 1999 between 20 and 25 percent per year – with no obvious end in sight.

And we have little control over these price increases, as they are set in markets – some international, some national, some regional – but all beyond the scope of state jurisdiction.

And the rising price of fossil fuels will have a direct and significant impact on the future price of electricity in Illinois.

There are many reasons to believe that these price increases will continue...

Consider these comments and events just from the last week:

- Recently, the CEO of Chevron said in advertisements published last week in major national newspapers "...the era of easy oil and natural gas is over" and that "...the world consumes two barrels of oil for every barrel found..."
- Royal Dutch Shell just announced that its effort to bring Russian natural gas to an international market as LNG will cost twice as much - \$20 billion instead of \$10 billion - as they thought two years ago.
- 15,000 workers in Iraq's South Oil Company are on strike, pulling nearly 1.5 million barrels of oil off of the market.
- BP's \$1.2 billion Thunder Horse oil and gas ocean production platform in the Gulf of Mexico is leaning at more than 20 degrees, putting in doubt when it will start producing the expected 250,000 barrels of oil and 5.7 million cubic meters of natural gas per day.

Finally, of the 250,000 MW of new capacity built in the United States since 1990 – 98 percent of it is either natural gas or natural gas and oil-fired. Look no further than our electricity demand on a hot summer day and you will see one of the major reasons that natural gas prices are so high – and likely to remain that way for the foreseeable future.

The energy world is an uncertain place and we have every reason to be concerned that – in terms of the price of fossil fuels – the next 20 years will not look like the last 20 years.

Even as fossil fuel prices are rising, so are scientific and public concerns about the effect of emissions from fossil fuels on human health and the earth's climate.

Local concerns about mercury pollution build on regional concerns about SO₂ and NO_x that build further on global concerns about CO₂.

Even some unexpected parties are strongly supporting action to begin to address the climatological effects of the continued use of fossil fuels. For example

- Last summer, in a speech to the council on foreign relations about climate, John Browne, the CEO of BP said "It would be too great a risk to stand by [and] do nothing," Waiting to act on climate change, until we had 100 percent certainty, according to Browne, could be "so disruptive as to cause serious damage to the world's economy."
- Late last year, the CEO of Exelon Corporation said in the WSJ: "At Exelon, we believe that the science of global warming is overwhelming. We believe that greenhouse-gas emissions will be regulated here in the United States in the near future. We believe that the US can and should do something about global climate change"

Unfortunately, even as public concern grows, so does the cost of controlling those emissions. In the last eighteen months, the cost of a SO₂ allowance – the right to emit one ton of SO₂ – has increased from around \$150/ton to nearly \$750/ton, raising the cost of coal-fired electricity.

And in Europe, which recently introduced tradable permits for CO₂, the cost of a CO₂ permit – the right to emit one ton of CO₂ – has increased from around \$5/ton to nearly \$35/ton, again raising the cost of coal-fired electricity. In fact, it was reported that at \$35/ton, the cost of the carbon permit to produce one kWh of coal-fired power is now greater than the cost of the coal itself.

In the face of all this, given that the Commission has no direct jurisdiction over fossil fuel prices or environmental quality, the easy thing to do would be to do nothing – sort of the regulatory equivalent of “it’s not my job.”

But it is the Commission’s job to protect Illinois consumers – and if the current consumer protection approaches need to be enhanced in light of the new circumstances, we need to work with all the interested parties – to develop and implement those new approaches that can help to lower energy bills.

And that is the basis for the program before the Commission today. If adopted, the Sustainable Energy Plan will begin to:

- Diversify Illinois away from fossil fuels for electricity generation;
- Hedge some of Illinois electricity consumption against likely future fossil fuel price volatility; and,
- Provide Illinois consumers with the tools they need to use energy smarter and more efficiently and thus protect their families and businesses from rising energy costs.

If we adopt this plan, we will be joining 19 states across the country, including New York, Texas, New Jersey, California, Massachusetts and Connecticut who have already adopted similar programs to the one before us today. Most recently, the US Senate endorsed a similar program incorporated in its version of the proposed energy legislation.

This Plan begins to set Illinois on a path to lower energy bills. Given the likelihood of continued price volatility and the relative insecurity of the fossil fuel supply – as well as increases in air quality and rural economic development that would likely result from our action – I believe we need to adopt the resolution before us to implement the framework of the Governor’s Sustainable Energy Plan. I urge my fellow Commissioners to support the resolution.

Thank you.

###